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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 005845

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DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
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SUBJECT: ROSNEFT'S LEADERSHIP RUMORS

REF: MOSCOW 5835

Classified By: Ambassador William J. Burns for reasons 1.4 (b) and (d)

11. (C) Summary: A recent shuffle in the top ranks of Rosneft, rumored to have been engineered by its Chairman Igor Sechin, has spurred speculation that CEO Sergey Bogdanchikov may be on his way out. If true, the company's plans and future may depend as much on politics as the company's plans and outlook. End summary.

BOGDANCHIKOV ON HIS WAY OUT?

12. (C) Control of Rosneft, Russia's leading oil producer, is a favorite topic of political speculation, as Deputy Head of the Presidential Administration Igor Sechin is Rosneft's chairman of the board. Recent resignations of three vice presidents and rumors of further resignations to come have led to theories that Rosneft CEO Sergey Bogdanchikov is himself on the way out. Such a move would, one theory goes, make room for Sechin, who may want the CEO job himself as a golden parachute.

13. (C) The most benign explanation for the shuffle at the top of Rosneft came from ExxonMobil Russia's new president, Steve Terni, who told us recently that the changes may have simply been intended to bring in more competent leaders. But nearly all analysts and journalists covering the story saw political machinations behind it.

14. (C) Former Deputy Energy Minister and now energy consultant Vladimir Milov told us December 14th that Sechin was indeed behind the removal of the VPs, who were Bogdanchikov associates. He claimed to have direct knowledge of a contentious conflict between Bogdanchikov and Sechin, who were previously allies. He said the firings were "Sechin's way of letting Bogdanchikov know that Sechin is still relevant."

15. (C) Although Bogdanchikov told the Ambassador this week (reftel) he did not expect major changes in the oil sector in 2008, most analysts believe further consolidation is inevitable as the state further tightens its control. According to Milov, state oil transport monopoly Transneft would soon be merged with Rosneft, and, perhaps,

Surgutneftegaz, to form a true state-owned oil sector giant. Milov believed Bogdanchikov would stay on until that time, when Transneft CEO Nikolay Tokarev, reportedly a Putin insider from Dresden days, would lead the new company, with Surgutneftegaz president Vladimir Bogdanov, another Putin ally, as his deputy.

OR IS SECHIN LEAVING?

¶6. (C) Even before the latest developments of Russia's leadership succession, rumors had circulated that Sechin was the one on his way out or was keeping his head down in the wake of press allegations he was behind a "redistribution" of assets of businessmen out of favor with the Kremlin. Milov said he believes Sechin is done at the Kremlin, but that he doesn't have a clear place to go.

¶7. (C) Vladimir Konovalov, Executive Director of the Petroleum Advisory Forum, the association of "western" oil companies in Russia, told us December 17th that he believes the rumors of Sechin's imminent departure from the scene were actually started by the now departed Rosneft VPs, at the behest of Bogdanchikov. According to Konovalov, there is a fear in Rosneft that FSB head and Sechin ally Nikolay Patrushev would like to fill Rosneft's leadership with his own people. Konovalov said the fact that Bogdanchikov seems to have survived (for now) may indicate that he has staying power, despite his technocratic background as an oil man.

¶8. (C) Comment: Rosneft is the most important player in Russia's oil sector, and most speculation about its leadership is just that -- speculation. But one aspect about

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the leadership struggle that most observers, including us, agree on is that it's not over yet.
BURNS